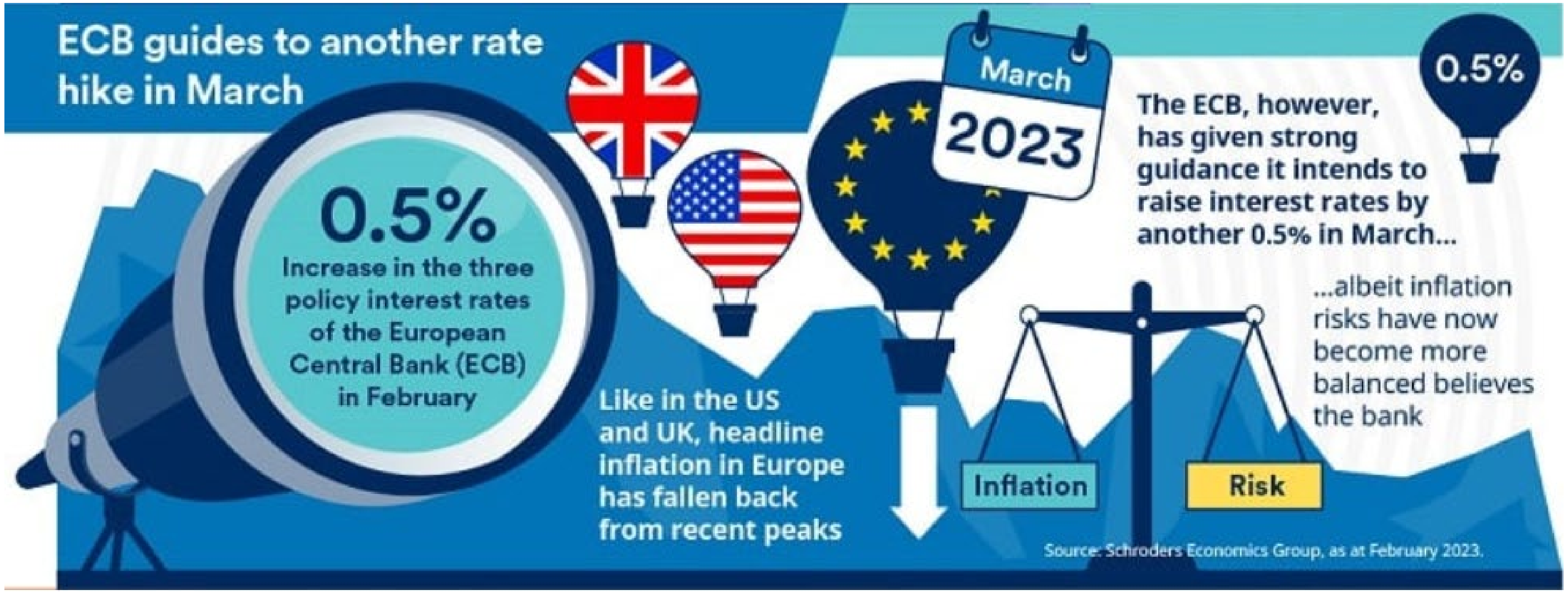
FINURA

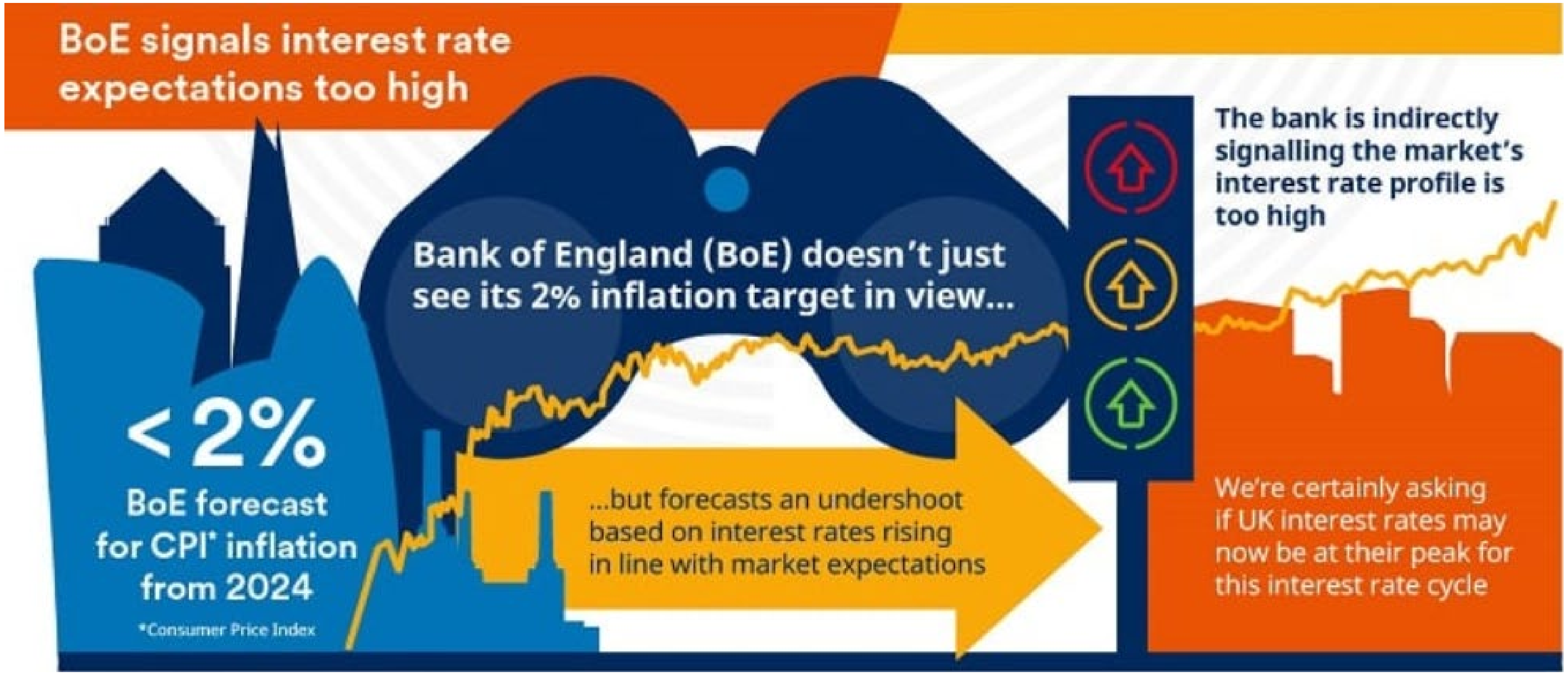
YOUR MARKET REVIEW
FEBRUARY 2023

Chartered
Financial
Planners

Pension
TRANSFER
Gold Standard

INFOGRAPHIC: THE GLOBAL ECONOMY





Source: [Schroders as at February 2023.]

MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

● Long / Positive ● Neutral ● Short / Negative

	Category	View	Comments
Main Asset Classes	Equities	Neutral	We keep our neutral stance. Peaking interest rates take some pressure off valuations, but risks of a hard landing or persistent core inflation remain.
	Government Bonds	Long / Positive	We remain positive - data such as credit conditions suggest higher rates are starting to impact growth and as the Fed remains vigilant on inflation.
	Commodities	Neutral	A slowdown in global growth, combined with easing supply dynamics, present limited upside across most commodities.
	Credit	Neutral ▼	After significant tightening of spreads, we are moving to neutral on credit.
Equities	US	Short / Negative	While the US economy is proving remarkably resilient, we have strong doubts that current valuation levels are justified especially if growth slows.
	UK	Neutral	Domestic issues are aplenty, but we remain neutral on valuation grounds.
	Europe	Long / Positive	Valuations are appealing, corporate balance sheets are strong, and we expect China's relaxation of its zero-Covid policy to boost growth.
	Japan	Neutral	The region should benefit from China's reopening, accompanied by attractive valuations. However, projected yen strength may prove a headwind.
	Global Emerging Markets[1]	Long / Positive	Recessionary risks are traditionally not supportive for emerging markets. However, current valuations reflect this, and China's re-opening should help.
	Asia ex-Japan & China	Long / Positive	China's reopening has been far quicker than most expected. Better growth trends versus the US and lower valuations keep us positive..
	EM Asia ex China	Short / Negative ▼	We have downgraded. Recent quarterly profits posted for companies such as Samsung have been dire, plunging to their lowest level in years, leaving us concerned.

[1] Global Emerging Markets includes Central and Eastern Europe, Latin America and Asia.

	Category	View	Comments
Government Bonds	US	Long / Positive	Market concerns will likely shift towards issues surrounding slower future growth given that the disinflationary process has begun.
	UK	Neutral	Although recent comments indicate a more balanced tone and reflect that the terminal rate is now in sight, we remain neutral as inflation risks persist.
	Germany	Neutral	We remain neutral as it remains unclear how high the European Central Bank (ECB) will raise interest rates given that growth has been higher than expected and inflation data has been lower than expected.
	Japan	Neutral	Further policy changes in yield curve control operations are expected. Absolute yields are still unattractive compared to other markets leaving us neutral.
	US Inflation Linked	Neutral	We remain neutral. Even though we favour the US bond market, we prefer to take exposure through nominal bonds as we expect inflation to continue to fall.
	Emerging Markets Local	Long / Positive	We remain positive on local EM debt given that the carry (the difference between the yield on a longer-maturity bond and the cost of borrowing) is still attractive.

	Category	View	Comments
Investment Grade Credit	US	🔴 ▼	Valuations in the US are expensive if we are heading into a slowdown and possibly a recession. Recession risks place a floor on spreads.
	Europe	🟡 ▼	After a significant tightening of spreads, we are taking profits on our overweight position and moving to neutral.
	Emerging Markets USD	🟢	We remain positive as emerging market fundamentals look relatively strong
High Yield Bonds (Non-IG)	US	🔴	The relative size of the US loans market makes the sector vulnerable in the event of a sharp downturn in the US economy.
	Europe	🟡 ▼	We have downgraded on valuation grounds but recognise that in comparison to the US, European HY spreads trade slightly wider.
Commodities	Energy	🟡	The oil market has been flat as it digests the China reopening story. Gas prices have plummeted thanks to a mild winter and an uptick in supply. We believe weakening demand should continue to dictate the direction, offsetting any upside from China.
	Gold	🟡	Weakening growth, an easing of inflation pressures and peaking real yields should support gold prices, but after recent price rises, we prefer to wait for better levels.
	Industrial Metals	🟡	China's policy shift has caused a sentiment-driven rally in base metals. We need to see a recovery in more metals-sensitive sectors, most notably property, to justify higher prices.
	Agriculture	🟡	Increasing supply from both Ukraine and Russia and favourable crop conditions continue to constrain the potential upside from agriculture.
Currencies	US $	🔴	We believe the dollar has peaked and the divergence in global central bank policy should put pressure on the currency to depreciate further.
	UK £	🔴	We stay negative on the view that the UK's growth woes will outweigh inflation concerns.
	EU €	🟡	Although the region's growth prospect appears slightly better than elsewhere, inflation slowed more than expected last month, meaning we retain our neutral view.
	CNH ¥	🟡	Although positive moves on a China reopening should benefit the renminbi (offshore), as well as other Asia-focused currencies, we remain neutral.
	JAP ¥	🟢	The recent move from the Bank of Japan (BoJ) may be the first of a series of monetary tightening moves, which would be supportive for the currency.
	Swiss F	🟡	The Swiss franc should benefit from the same drivers that benefit the Euro.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Source: Schroders, February 2023. The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.

MARKETS REVIEW

A look back at markets in February when shares fell amid ongoing interest rate rises.

THE MONTH IN SUMMARY

Global equities declined in February in US dollar terms after the strong advance seen in January. Resilient economic data suggested that any hoped-for pause in interest rate rises may still be some way off. The Federal Reserve, European Central Bank and Bank of England all raised rates in the month. In fixed income, government bond yields were higher (meaning prices fell).

THE US

US equities declined. The Federal Reserve (Fed) indicated that policy intervention was starting to work on curbing inflation, but that the policy rate may peak at a higher point. Economic data otherwise remains strong.

Fed Chair Jerome Powell reaffirmed that a slowdown in inflation is underway and that its 2% target is achievable. The Federal Open Market Committee (FOMC) minutes from the 1 February meeting showed that while almost all members agreed to slow the pace of rate hikes to 25 basis points, there was a general consensus that rates may need to rise further than was initially assumed to bring inflation under control.

Inflation, as measured by the headline consumer price index (CPI), climbed 0.5% in January after a 0.1% increase in December; the pick-up was driven by the energy component. Q4 GDP growth was revised down in the second reading, to a still-strong 2.7% (quarter-on-quarter, annualised).

Almost all sectors of the S&P 500 were weaker. Technology was comparatively resilient. Chipmaker Nvidia was a notable performer having posted strong results and announced greater involvement in artificial intelligence. Energy was amongst the weakest sectors with investors eyeing potential cost pressures.

EUROZONE

Eurozone shares gained in February. Top performing sectors included communication services, financials, industrials and consumer staples. Real estate, IT and healthcare posted negative returns.

Forward-looking data painted an encouraging picture for the eurozone economy. The flash Markit composite purchasing managers' index for February reached 52.3, up from 50.3 in January, indicating the strongest expansion of business activity since last May. (The PMI indices are based on survey data from companies in the manufacturing and services sectors. A reading below 50 indicates contraction, while above 50 signals expansion.)

The European Central Bank (ECB) raised interest rates by a further 50 basis points (bps), taking the main refinancing rate to 3.0%. A further increase is expected in March. Markets had interpreted signs of easing inflation in January as meaning that the pace of hikes could soon moderate. However, preliminary data for February indicated that inflation ticked up again in both France and Spain, casting doubt on hopes of an end to rate rises.

February saw the European Commission propose a Green Deal Industrial Plan. This aims to provide support for scaling up the EU's manufacturing capacity for the net-zero technologies and products that will be needed to meet Europe's climate targets.

UK

UK equities held up well during the month. Large cap companies were among the top contributors and the FTSE 100 index achieved a new record high. The market was led by the energy, healthcare and telecoms sectors. These sectors benefited from a period of renewed dollar strength as investors questioned whether US interest rates might have to rise further than expected.

A number of domestically focused areas of the market also outperformed as it transpired that the UK economy has been performing more resiliently than expected. Notably, the latest GDP data from the Office for National Statistics revealed that the UK economy had not contracted in Q4 2022. As a result, the economy dodged a technical recession by avoiding two consecutive quarters of decline following the contraction in Q3 2022.

In its latest quarterly forecast for the UK, the Bank of England said it still expected the country to fall into a recession later in 2023. However, it said the downturn would be shallower than it had predicted at its previous forecast made in November, since which time wholesale energy prices have fallen considerably. The Bank raised the UK base rate by half a percentage point at the latest Monetary Policy Committee meeting. The accompanying comments following the meeting suggested the Bank thought the rate had hit its peak for this cycle.

JAPAN

The Japanese stock market rose slightly in February. The total return was 0.9% in local terms. The yen weakened sharply after testimony to the Diet by Kazuo Ueda, the nominee to be the new Bank of Japan (BoJ) Governor, as he appeared to prefer the status quo on monetary policy. Yen weakness supported market sentiment, especially for exporters.

Prime Minister Kishida's decision to nominate Kazuo Ueda, an economics professor and former policy board member of the BoJ, surprised the market. Consensus had been that the role would go to Masayoshi Amamiya, the current deputy governor, who reportedly declined it.

Inbound tourism has been sharply recovering. The number of foreign visitors in January was back to 60% of the pre-Covid period. Strong demand boosted sales of retailers, hotels and services, which was demonstrated in the Q4 earnings results for domestic companies.

Inflation in Japan has been steadily picking up and CPI was recorded at 4.3%, the highest level in the last 40 years. To cope with this historically high inflation environment, the Japanese government and BoJ are pushing companies to raise wages at the annual wage negotiations in March.

Quarterly earnings results announced from late January to mid February were mixed. Exporters had a difficult time due to yen appreciation during Q4 2022, and a slowdown in production affecting the technology sector. Domestically-oriented companies recorded better-than-expected sales numbers but suffered from cost increases, including the electricity price hike.

ASIA (EX JAPAN)

Asia ex Japan equities recorded a negative performance in February, driven lower by sharp declines in China and Hong Kong. This was a partial reversal of the strong gains seen in prior months

and was partly due to escalating geopolitical tensions. All index markets ended the month in negative territory, with the smallest fall recorded in Indonesia. Thailand, Malaysia and South Korea experienced sharp falls as investors took profits following a strong performance in January on investor optimism sparked by China's reopening.

Indian equities were also weaker in February, with domestic inflation numbers and global issues, such as the ongoing war in Ukraine, adding to investor worries over growth. Concerns over interest rates amid a global economic slowdown also weakened investor sentiment towards the country in February. Share prices in Singapore, Taiwan and the Philippines also ended the month in negative territory, although the declines were more modest.

EMERGING MARKETS

Emerging market (EM) equities posted negative returns in February and underperformed global equities. A re-escalation in US-China tensions weighed on sentiment while more resilient-than-expected macro data out of the US raised the prospect of further rate hikes. Against this backdrop the dollar strengthened, which was an additional headwind for EM.

Colombia was the weakest index market amid widespread protests against the government's reforms. China also lagged the index by some margin. In part this was due to profit-taking after strong returns recently and as enthusiasm about its re-opening faded somewhat. The underperformance was also driven by geopolitical tensions between itself and the US following the shooting down of a Chinese high-altitude balloon in US airspace.

Thailand and Brazil both underperformed too. The former saw Q4 GDP growth come in lower than expected while exports contracted given weak global demand. In Brazil, uncertainty about China's recovery weighed on returns.

South Africa was behind the index too as the country was 'grey-listed' by the Financial Action Task Force given deficiencies in its processes to combat money laundering and terrorist financing. Saudi Arabia fell, led lower by the banking sector. Korea posted negative returns that were worse than the index as the combination of the prospect of 'higher-for-longer' rates and uncertainty about China's recovery weighed on the outlook for global trade.

India outperformed, despite Q4 GDP data that came in below consensus. Poland came in ahead of the index as did Chile and Peru. Qatar and Kuwait posted negative returns, against a backdrop of weaker energy prices, but performance was better than the index. The UAE delivered positive returns as the banking sector recovered from its sell-off in January. Turkey and Egypt were strong with the former helped by currency weakness. The market outperformed despite the deadly earthquake that hit the country early in the month.

GLOBAL BONDS

Global government yields were higher in February. Risk assets performed poorly – US credit (both high yield and investment grade) spreads widened as markets anticipated higher rates for longer. The US underperformed while European credit fared better. (Investment grade bonds are the highest quality bonds as determined by a credit rating agency; high yield bonds are more speculative, with a credit rating below investment grade.)

The Fed hiked rates by 25bps at the beginning of the month, but following strong data, markets concluded that interest rates would likely need to remain higher for longer. Activity data rebounded during February – US payrolls were higher than expected and survey data rebounded from prior weakness. Some of this is likely due to challenging seasonal adjustments and distortions due to weather. Services PMIs for February rebounded; while the manufacturing PMI did improve, the broad trend is still weak.

The ECB hiked rates by 50bps early in the month and signalled an additional 50bps at their next meeting in March. The message was construed as dovish, given acknowledgement of the improving inflation profile from energy prices.

European data (PMIs) followed in the footsteps of other economies, such as the US, with improving services but limited signs of improvement from the manufacturing sector. However, figures still reflect much more positive momentum than seen only a few months ago, with February's composite number rising further into expansionary territory. Recessionary risks appear to have been priced out of the market.

In Japan, Kazuo Ueda was nominated as Bank of Japan governor. Markets are trying to work out what this means for monetary policy-particularly yield curve control.

The US 10-year yields rose from 3.51% to 3.92%, with the two-year rising from 4.21% to 4.82%. Germany's 10-year yield increased from 2.29% to 2.65%. The UK 10-year yield rose from 3.34% to 3.71% and 2-year increased from 3.46% to 4.07%.

The US dollar was stronger against most G-10 peers. The Swedish krona was the outlier, strengthening on higher-than-expected inflation and the anticipation of a hawkish response by the Riksbank.

Convertible bonds protected well against losses from the equity market. The Refinitiv Global Focus shed less than 2% in US dollar terms. February turned out to be a good month for primary market activity. We saw US$10.2 billion of new paper coming to the market. The US remained the dominant region, followed by European convertibles.

COMMODITIES

The S&P GSCI Index recorded a negative performance in February. Industrial metals and precious metals were the worst-performing components of the index. Within industrial metals, nickel, zinc and aluminium all experienced sharp price falls, while declines for lead and copper were more muted. Within precious metals, silver and gold prices both declined in the month. Energy prices were also weaker. Within agriculture, wheat, Kansas Wheat and corn all experienced significant price falls.

DIGITAL ASSETS

After one of the best monthly performances recorded in January, digital asset markets paused for breath in February. The performance of Bitcoin and Ethereum was relatively flat, returning 0% and 1.3% respectively. Total crypto market cap stands today at nearly US$1 trillion, up from US$756 billion at the beginning of the year. The month saw an increase in regulatory activity with the SEC investigating a number of notable firms as well as the UK regulator kicking off an ambitious digital asset regulatory review.

User activity remained healthy as a recent report published by crypto.com revealed that crypto holders increased by 39% in 2022 from 306 million to 425 million despite the bear market. Looking ahead there is an important Ethereum network upgrade called the Shanghai fork which opens up withdrawals of staked ETH tokens, a last step in the network's shift to proof-of-stake.

TOTAL RETURNS (NET) % – TO END FEBRUARY 2023

	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	-2.4	-0.1	-0.8	-7.3	-1.9	2.7
MSCI World Value	-2.9	-0.6	-1.3	-2.2	3.6	8.4
MSCI World Growth	-1.9	0.5	-0.2	-12.9	-7.8	-3.5
MSCI World Smaller Companies	-2.0	0.3	-0.4	-6.1	-0.6	4.0
MSCI Emerging Markets	-6.5	-4.2	-4.9	-15.3	-10.3	-6.1
MSCI AC Asia ex Japan	-6.8	-4.6	-5.2	-14.4	-9.3	-5.1
S&P500	-2.4	-0.1	-0.8	-7.7	-2.2	2.3
MSCI EMU	-0.7	1.6	0.9	0.7	6.6	11.6
FTSE Europe ex UK	-0.8	1.6	0.9	-0.8	5.1	10.0
FTSE All-Share	-0.2	2.2	1.5	-3.2	2.5	7.3
TOPIX*	-3.6	-1.3	-2.0	-8.3	-2.8	1.7

	1 MONTH			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-2.2	0.1	-0.6	-9.8	-4.5	-0.0
JPM GBI UK All Mats	-4.9	-2.6	-3.3	-28.6	-24.4	-20.9
JPM GBI Japan All Mats**	-3.3	-1.0	-1.7	-18.4	-13.6	-9.6
JPM GBI Germany All Traded	-4.7	-2.4	-3.1	-20.6	-15.9	-12.0
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	-3.1	-0.8	-1.5	-11.7	-6.5	-2.1
BofA ML US Corporate Master	-2.9	-0.6	-1.3	-10.0	-4.7	-0.3
BofA ML EMU Corporate ex T1 (5-10Y)	-4.4	-2.1	-2.8	-17.9	-13.1	-9.1
BofA ML £ Non-Gilts	-3.8	-1.5	-2.2	-20.9	-16.2	-12.3
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	-1.7	0.6	-0.1	-6.7	-1.2	3.4
BofA ML Euro High Yield	-2.4	0.0	-0.7	-5.6	0.0	4.6

Source: Thomson Reuters DataStream.
Local currency returns in February 2023: *1.0%, **1.2%.
Past performance is not a guide to future performance and may not be repeated.

Source: [Schroders, February 2023]: The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

Important Information: This communication is marketing material. The views and opinions contained herein are those of the named author(s) on this page, and may not necessarily represent views expressed or reflected in other Finura communications, strategies or funds. This document is intended to be for information purposes only and it is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The material is not intended to provide, and should not be relied on for, accounting, legal or tax advice, or investment recommendations. Information herein is believed to be reliable but Finura does not warrant its completeness or accuracy. The data has been sourced by Finura and should be independently verified before further publication or use. No responsibility can be accepted for error of fact or opinion. This does not exclude or restrict any duty or liability that Finura has to its customers under the Financial Services and Markets Act 2000 (as amended from time to time) or any other regulatory system. Reliance should not be placed on the views and information in the document when taking individual investment and/or strategic decisions. Past Performance is not a guide to future performance. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of any overseas investments to rise or fall. Any sectors, securities, regions or countries shown above are for illustrative purposes only and are not to be considered a recommendation to buy or sell. The forecasts included should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. Forecasts and assumptions may be affected by external economic or other factors. Issued by Finura Partners Limited, registered in England under Companies House number 09560937, 15 Bowling Green Lane, London, England, EC1R 0BD.

FINURA

5th Floor, 20 Old Bailey, London EC4M 7AN
T: +44 (0)20 8057 8004 E: hello@finura.co.uk W: finura.co.uk